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Soviet Attitudes Toward International  
Commodity and Financial Organizations

Commodity Agreements

The Soviets have not -- with few exceptions -- openly joined commodity cartels, choosing instead to remain on the sidelines as an interested observer. The actions of the cartels have been generally beneficial to Moscow, which has been able to defend its economic interests without direct involvement. In their own marketing actions, the Soviets usually have been careful not to disrupt the cartels by cutting prices or by making other destabilizing moves.

The Soviets have applauded the potential (other than OPEC) power of the commodity cartels. Viewing the situation as a struggle between poor, underdeveloped, long-exploited countries on the one hand, and imperialist-monopolist-capitalist countries on the other, the Soviets have strongly defended the cartels' possible future success in helping improve the terms of trade for LDCs. The steep price increases are justified, the Soviets say, by (1) inflation in the West, (2) past economic exploitation of LDCs by Western firms, and (3) the LDCs' quest for economic independence.

Soviet attitudes toward OPEC, by far the most important and successful of the cartels, are typical. The Soviets focus attention on the profits earned by the Western oil companies before the OPEC takeover and indicate that the price

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increases in 1973 and since were long overdue. The OPEC countries, according to the Soviets, have the right to control their oil resources by setting prices, withholding production, and declaring embargoes. Moreover, this control should be used for political purposes.

Although the Soviets are not members of OPEC, the oil price increases since 1973 have provided the USSR with a huge hard currency windfall. Soviet oil contracts with the West are priced in terms of OPEC oil, and the Soviets follow suit whenever OPEC raises prices.\* The Soviets suffered large hard currency trade deficits in 1975 and 1976 -- \$6.3 billion and \$5 billion, respectively -- and these deficits would have been possibly \$2 billion higher without the added revenues from oil sales to the West. Hard currency oil earnings rose from \$580 million in 1972 to about \$4.5 billion in 1976.

In January 1977, the USSR approached several Middle East oil exporters about the formation of a new oil cartel whose membership would include several hard-line OPEC members, the East European countries, and the Soviet Union. The proposal was apparently made by a low-level Soviet official and was rejected by the OPEC countries. Moscow's motivation -- and degree of seriousness -- are not clear; the closeness of OPEC and Soviet interests argues against Soviet attempts to form a rival organization.

\* The latest price increase, with Saudi crude going up 5% and other oil 10%, produced a dispute between the Soviets and a Western buyer. The Soviets wanted 10%, but the buyer insisted on 5%, since the contract was tied to the price of Saudi light crude. A compromise increase of 7.5 percent was finally negotiated.

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Policies of other cartels -- those for iron ore and copper, for example -- have had less dramatic impact on the USSR because (1) they have not been able to dominate their markets as well as OPEC, and (2) their commodities are much less significant Soviet exports.

The most important direct Soviet participation in an international sellers' group is its agreement with the British firm, de Beers, which buys about 70-80 percent of the world's uncut diamonds. Under the agreement, the Soviets sell all their uncut diamonds to de Beers. The arrangement allows de Beers to maintain its virtual monopoly on the world diamond market while both parties are able to avoid competing with each other.

Some cartels have an impact on the USSR as an importer rather than as a exporter. For example, although the USSR is one of the world's leading producers of tin, its membership in the International Tin Council is based on the fact that it also is a substantial importer of tin. The Soviets have also become substantial importers of bauxite from Guinea, and are unhappy about the increased price of bauxite that has resulted from the International Bauxite Agreement.

#### Financial Agreements

The Soviets are not members of the IMF nor do they participate directly in any other Western international monetary agreement or organization. Moscow took part in discussions which culminated in the Bretton Woods Agreement of 1946

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establishing the IMF, the World Bank, and the postwar exchange rate system. The Soviets, at the time embarking on a period of economic autarky, declined to sign the agreement. They objected to: the requirement that members eventually trade on a multilateral basis with convertible currencies; payment of a contribution to the IMF; and the publication of information on finances, gold reserves, and balance of payments.

Although Moscow has abandoned autarky, expanded East-West trade, and become active as a borrower in international financial markets and as a seller in the gold market, the USSR still shows little interest in joining international monetary organizations. The reasons are much the same as those which made membership unappealing three decades ago. Much of Soviet trade is still bilateral in nature and settled by clearing accounts in contradiction of the spirit of Bretton Woods. Membership in the IMF would require a large Soviet contribution. The Soviets are still loath to publish financial data; Western bankers' requests for balance of payments and reserves data to evaluate Soviet creditworthiness have been rejected. Release of this information is apparently a violation of Soviet law. Moreover, the Soviets perceive the IMF as a Western-dominated institution in which they would have little effective power. The chief advantage to membership would be Soviet access to IMF lending facilities, but these would not be a significant source of funds for Moscow.

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Moscow has attempted to create its own international monetary system within CEMA. CEMA's International Bank for Economic Cooperation (IBEC) and the International Investment Bank (IIB) roughly parallel the IMF and World Bank, respectively. IBEC was created in 1963 to serve as a clearing house for intra-CEMA trade to provide trade financing for members. IIB was established in 1971 to finance investment projects undertaken by member countries.

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**Moscow's View of the North-South Dialogue**

**8 June 1977**

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**Analysts:**

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The Soviet View of the North-South Dialogue

Moscow sees the North-South dialogue as a move "to restructure the entire system of international economic relations inherited from colonialism". The USSR so far has chosen to remain on the sidelines while shouting encouragement to the LDCs and there is no indication that this will change. If the Soviets, however, are pressed into making financial contributions to the LDCs because of the dialogue the aid would probably be modest at best.

Moscow believes the LDCs are not seeking "a place under the sun within the world capitalist economic system" but are pushing for a new international economic order. Understandably, the USSR and other Communist countries have allied themselves with the LDCs. According to Moscow, the priorities in the North-South struggle are:

- Curbing the "unbridled activities" of the multinational corporations by giving LDCs complete control over foreign capital investment and the export of profits and dividends.
- Eliminating discriminatory trade barriers.
- Adopting measures to ensure a stable and sufficient level of export earnings for developing countries -- particularly by

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the indexing of raw material prices to the prices of finished products and by creating a general fund to finance buffer stocks.

- Increasing the transfer of Western technology to the LDCs.

The Third World can expect little in the way of financial aid from the USSR because of the North-South dialogue. The Soviets claim that the socialist countries are "obviously not responsible for the colonialist plunder of the resources of the developing countries," consequently they do not share in the common guilt of the capitalist countries. Furthermore, the many years of cooperation between the USSR and other Communist countries and the Third World have shown "the effectiveness of the current practice of their economic links in helping the developing states overcome their backwardness." In regard to foreign trade, the less developed countries also can expect little from the USSR. Moscow has admitted that it expects Soviet trade with the LDCs to continue growing at a slower pace than trade with either the West or other socialist countries.

If the Soviets can be coerced into contributing to the LDCs -- an outside possibility -- they most likely would press for several conditions. Moscow would favor bilateral aid rather than the multilateral approach adopted by the industrial nations; the Soviets do not want their contributions overshadowed by larger Western aid. The financial help

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probably would be in the form of credits rather than grants since the former is preferred by Moscow. In addition, the Soviets would resist attempts to link the amount of aid to the USSR's national product -- the scheme currently promoted by the LDCs. Finally, the Soviets have expressed objections to the creation of buffer stocks based on the contributor's share of total world trade; Moscow believes the USSR's trade with the Socialist countries should be excluded from the data base.

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